



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Application of
Southwest Gas Corporation for Authority
to Change Rates and Charges for Gas
Service effective on January 1, 2009.
(U 905 G)

Application No. 07-12-022
(Filed December 21, 2007)

PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES

I. INTRODUCTION

On December 21, 2007, Southwest Gas Corporation (SWG) filed its test year 2009 general rate case (GRC) application, Application (A.) 07-12-022, with the California Public Utilities Commission (Commission). SWG is requesting test year rate relief (effective January 1, 2009) for its gas operations in three jurisdictions—the Southern California Division,¹ Northern California Division,² and South Lake Tahoe District.³ SWG is also requesting revenue increases during post test years 2010-2013.

For 2009, SWG is requesting a \$7.1 million (12.9%) increase for its Southern California Division, an \$117,000 (0.7%) decrease for its Northern California Division, and a \$2.1 million (52.2%) increase for its South Lake Tahoe District compared to authorized 2008 revenues.

¹ The Southern California Division includes the Barstow, Victorville, Big Bear and Needles Districts.

² The Northern California Division includes the Lake Tahoe North Shore and Truckee (including Northstar Ski Resort) Districts.

³ In Decision (D.) 05-03-010, SWG received Commission approval to acquire the natural gas properties of the Avista Corporation in the South Lake Tahoe area.

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) protests this Application. Since the Application first appeared on the Commission's Daily Calendar on December 26, 2007, this Protest is timely filed.

II. BACKGROUND

On October 9, 2007, SWG tendered its Notice of Intent (NOI) with the Commission to file a GRC application for test year 2009 (TY2009) and post-test years 2010 through 2013, in a 5-year rate case cycle. The NOI was accepted for filing on December 6, 2007, and the application followed.

Table 1 shows SWG requesting \$83.5 million in operating margin⁴ in TY2009 for its three California jurisdictions, which represents a \$9.1 million (or 12.2%) increase relative to 2008 levels. This consists of a \$7.1 million (or 12.9%) increase in the Southern California Division, an \$117,000 (or 0.7%) *decrease* in the Northern California Division, and a \$2.1 million (or 52.2%) increase in the South Lake Tahoe District.

Table 1
SWG is Seeking \$83.5 Million in 2009 Operating Margin for its California Jurisdictions,
Which is a \$9.1 Million (or 12.2%) Increase Compared to 2008 Levels⁵
(in Thousands of Dollars)

Jurisdiction (a)	SWG's Requested 2009 Operating Margin (b)	2008 Operating Margin (c)	\$ Increase over 2008 Operating Margin (d=b-c)	% Increase over 2008 Operating Margin (e=d/c)
Southern CA Division	\$62,269.6	\$55,165.3	\$7,104.3	12.9%
Northern CA Division	\$15,060.6	\$15,178.1	-\$117.5	-0.7%
So. Lake Tahoe District	\$6,147.3	\$4,040.1	\$2,107.2	52.2%
<i>Total</i>	\$83,477.5	\$74,383.5	\$9,094.0	12.2%

If the Commission grants this application, SWG asserts that residential customers would experience the following annual average changes to their total gas bills: (1) a

⁴ Operating margin refers to the revenues derived from base rates, excluding revenues and expenses related to the natural gas commodity. Natural gas commodity-related revenues and expenses are subject to a separate purchased gas cost adjustment mechanism and are not included in GRC base rates.

⁵ SWG Results of Operations Volumes II-A, II-B, and II-C, Chapter 6, Sheet 1, line 3.

2.0% increase in the Southern California Division; (2) a 3.9% decrease in the Northern California Division; and (3) a 12.5% increase in the South Lake Tahoe District.⁶

SWG is also proposing a Post Test Year Ratemaking (PTYR) mechanism to allow for revenue requirement increases from 2010 through 2013. SWG asserts that without a PTYR mechanism, it “...will not recover increases in post test year costs caused by inflation, and the requirement for continued capital spending, which significantly impair Southwest’s ability to earn its authorized rate of return.”⁷

SWG estimates the yearly PTYR increases per jurisdiction to be as follows:

Table 2
SWG is Requesting Average Annual Increases of \$4.7 Million (or 5.6%)
in Operating Margin for the 2010-2013 Post Test Years
(in Thousands of Dollars)

Year (a)	Southern CA (b)	Northern CA (c)	South Lake Tahoe (d)	Annual Total (e=b+c+d)
2010	\$3,907.8	\$725.1	\$103.4	\$4,719.1
2011	\$3,882.3	\$728.1	\$104.8	\$4,711.7
2012	\$3,896.7	\$730.3	\$105.9	\$4,729.8
2013	\$3,906.6	\$732.2	\$107.1	\$4,743.5
<i>Avg. Annual \$ Increase</i>	\$3,898.4	\$709.4	\$102.9	\$4,726.0
<i>Avg. Annual % Increase</i>	5.8%	4.5%	1.7%	5.6%

III. IDENTIFIED RATE CASE ISSUES

SWG is seeking a rate increase in the Southern California Division, a rate decrease in the Northern California Division, and a particularly substantial increase in the South Lake Tahoe District. For the test year, SWG is proposing to increase its base rate operating margin by \$9.1 million, which is 12.2% higher relative to rates authorized for 2008 (see Table 1). DRA is conducting discovery on the issues raised by the application and will make recommendations to the Commission as appropriate. The following is a non-exhaustive list of the issues DRA intends to explore at the present time. Discovery and analysis may eliminate some of these issues and others may arise.

⁶ SWG Application, Volume I, page 4.

⁷ SWG Testimony, Tab A, page 22, line 21-24.

A. Summary of Earnings / Results of Operations

The Summary of Earnings presents the revenue requirements based on projections of revenues, expenses, net earnings, rate base, and rate of return. These elements are inputs to the Results of Operations (RO) model, which is used to develop the Summary of Earnings. DRA will perform a thorough review and evaluation of SWG's RO model's calculations and inputs to ensure the integrity of the model, compliance with the Commission's policies, and sound regulatory principles. The Summary of Earnings will compare the estimated revenue requirements that DRA recommends to that which SWG requests.

B. Sales, Customers, and Revenues

Operating revenues are the product of estimated sales, customers, and billing factors including effective rates. SWG's gas sales are estimated by class of service with econometric models that run sales as a function of theoretically related independent variables for which forecasts are available (income, taxes, price, average weather conditions, and others). Housing starts and general economic conditions influence residential customer projections. SWG is forecasting 12%, 7%, and 3% customer growth during 2006-2009 in the Southern California Division, Northern California Division, and South Lake Tahoe District, respectively. DRA will review the company's estimates and independently derive its own forecast.

C. Gas Operation and Maintenance Expenses

Gas operation and maintenance (O&M) expenses reflect the cost of gas distribution operations such as meter purchases and maintenance, distribution load dispatching, mains and services maintenance, and regulating station expenses.

SWG is requesting limited increases in distribution O&M expenses in the Southern California Division and South Lake Tahoe District. However, SWG is requesting a 14% increase in O&M expenses in 2009 compared to 2006 for the Northern California Division. The most significant increases appear in Federal Energy Regulatory Commission (FERC) Accounts 871 (Distribution Load Dispatching), 878 (Meter and House Regulator Expenses), 879 (Customer Installation Expenses), 887 (Maintenance of

Mains), 892 (Maintenance of Services), and 893 (Maintenance of Meters and House Regulators).

DRA will thoroughly review SWG's O&M expense estimates and develop independent forecasts for the various gas distribution O&M cost categories.

D. Customer Accounts / Customer Service Expenses

The primary customer service accounts are meter reading, customer records and collection, and uncollectibles. These include work functions such as: meter reading and investigations, processing customer bills, computer system related costs, customer service and inquiries, customer transactions, and information technology.

SWG requests moderate increases in Customer Accounts expenses in the South Lake Tahoe District. However, SWG is requesting 15% increases in expenses in 2009 compared to 2006 for the Southern California and Northern California Divisions. The most significant increases appear in FERC Accounts 901 (Supervision), 902 (Meter Reading Expenses), 903 (Customer Records and Collection Expenses), and 905 (Miscellaneous Customer Accounts Expenses).

DRA will review the proposed increases, and will also review and evaluate current and proposed customer programs, customer service fees, service quality, and customer satisfaction standards.

E. Administrative and General Expenses

Many items comprise A&G expenses, including: corporate service salaries, injuries and damages, insurance, pensions and benefits, outside services, and utility operations support. The majority of the A&G expense increases in 2009, compared to base year 2006, are due to the following:

- the inclusion of franchise taxes in FERC Account 927 (Franchise Requirements) for the Southern California Division and the South Lake Tahoe District;⁸

⁸ SWG is taking this approach instead of including franchise taxes as an expense recovered through taxes, via FERC Account 408.

- FERC Account 923 (Outside Services), which reflects the use of outside services such as consultant and attorney fees, for the Northern California Division; and
- FERC Account 925 (Injuries and Damages),⁹ for System Allocable expenses.

DRA will carefully examine the nature and reasoning behind SWG's request in each of these areas. DRA will also analyze SWG's labor loading (i.e.: pensions and benefits, and payroll taxes) percentage projections. Finally, DRA will review the independent audit of the Post Retirement Benefits Other than Pensions (PBOPs) trust account that SWG filed in this rate case, in compliance with the Commission's decision in the utility's last GRC.¹⁰

F. Escalation

Escalation is the rate of inflation for the costs of the utility's purchase of labor and materials. SWG used its actual 3.00% wage increase granted to non-exempt employees for its 2007 labor escalation factor. For 2008 and 2009, SWG used a labor escalation factor of 2.73%, based on a 15-year average (from 1993 to 2007) of wage increases granted to non-exempt employees. SWG used the forecasted non-labor inflation factors contained in the "Estimates of Non-Labor and Wage Escalation Rates for 2007 through 2011" memorandum prepared by DRA for June 2007 to escalate its non-labor costs for 2007 through 2009.¹¹ DRA will review this item, and may introduce the most recent forecasts from Global Insight's Utility Cost Information Service as the source for escalation.

⁹ For ratemaking purposes, SWG proposes to treat its self-insured responsibility for liability claims as a system allocable expense, consistent with the ratemaking treatment for liability insurance premiums. SWG is self-insured for up to \$1.0 million of claims expense for each occurrence, and for an additional aggregate of \$5.0 million of liability claims.

¹⁰ D.04-03-034, Ordering Paragraph 8.

¹¹ SWG Testimony, Tab B, page 4, lines 9-22.

G. Taxes

Taxes include state and federal income, property, and other taxes. DRA will analyze and audit these accounts, as necessary, for compliance with tax laws and standard accounting practices. DRA will review SWG's filing in light of state and federal tax rates, permitted depreciation for tax purposes, interest and other tax deductions. DRA will also assure the company's compliance with current taxes laws and confirm that the utility's tax practices follow the most recent changes in the tax code.

H. Plant Additions

Gas distribution plant is primarily composed of pipelines, meters, gas mains, and services. The majority of SWG's forecasted 2007-2009 plant additions are associated with:

- serving new customers,¹² measuring and regulating stations, routine pipe replacement, and normal reinforcements;
- the Polyvinyl Chloride (PVC) Pipe Replacement Program in the Southern California and Northern California Divisions; and
- converting non-temperature compensated meters to temperature compensated meters in the South Lake Tahoe District.

Table 3 shows SWG's 2006 actual and 2007-2009 estimated direct (gross) plant additions for the three California jurisdictions.¹³

¹² SWG is forecasting 12%, 7%, and 3% customer growth during 2006-2009 in the Southern California Division, Northern California Division, and South Lake Tahoe District, respectively.

¹³ SWG Results of Operations, Volumes II-A, II-B, and II-C, Chapter 17.

Table 3
SWG Forecasts Over \$91 Million of Direct Plant Additions from 2007-2009
for the Three California Jurisdictions
(in Thousands of Dollars)

Jurisdiction	Base Year 2006	Estimated 2007	Estimated 2008	Estimated TY2009
Southern California Division	\$25,388.4	\$28,018.1	\$21,094.1	\$20,781.2
Northern California Division	\$2,869.4	\$4,187.5	\$5,736.0	\$4,307.4
South Lake Tahoe District	\$521.6	\$3,113.5	\$1,997.6	\$1,923.5
Total Direct	\$28,779.4	\$35,319.1	\$28,827.7	\$27,012.1

Table 4 shows SWG's 2006 actual and 2007-2009 estimated System Allocable plant additions in total,¹⁴ and the amounts allocated to each of the three jurisdictions.

Table 4
SWG Forecasts Over \$38 Million of System Allocable Plant Additions from 2007-2009,
Nearly \$4 Million of Which is Allocated to the Three California Jurisdictions
(in Thousands of Dollars)

Jurisdiction	Base Year 2006	Estimated 2007	Estimated 2008	Estimated TY2009
Total System Allocable	\$6,508.9	\$10,225.8	\$14,661.5	\$13,567.1
Allocated to SoCA @ 7.88%	\$512.3	\$805.8	\$1,155.3	\$1,069.1
Allocated to NoCA @ 1.38%	\$89.8	\$141.1	\$202.3	\$187.2
Allocated to SoLT @ 0.86%	\$56.0	\$87.9	\$126.1	\$116.7
Total Allocated to CA	\$658.1	\$1,034.8	\$1,483.7	\$1,373.0

DRA will review SWG's projections for plant additions by evaluating the methodology applied, reviewing major projects, and reviewing other functional areas with forecasted plant additions in order to develop independent forecasts for 2007, 2008, and 2009.

I. Depreciation

Depreciation expense is related to the magnitude of the company's plant-in-service. As a new plant item is placed in service, the level of depreciation concomitantly increases. This expense enables the company to recover the original cost of capital investments, less any estimated net salvage over the useful life of the asset.

¹⁴ SWG Results of Operations, Volumes II-A, II-B, and II-C, Chapter 8, Tab B.

The depreciation rates that SWG uses in 2009 are contained in the depreciation study submitted to DRA on June 28, 2007. For the Southern California Division, Northern California Division, and South Lake Tahoe District, SWG is requesting \$11.7 million, \$2.7 million, and \$0.9 million, respectively, in depreciation expenses¹⁵ for determining its 2009 operating margin. Increases in plant-in-service and changes to depreciation accrual rates typically drive changes in depreciation expense.

DRA will review the net increase and associated accrual rates by examining the various elements of depreciation (plant balance and reserves, service lives, survivor curves, net salvage rates, cost of removal, and net salvage) for each plant account and will develop independent forecasts of depreciation rates, expense, and reserve.

J. Rate Base

Rate base is the net investment in facilities, equipment, and other property a utility has constructed or purchased to provide utility service to its customers, and is the basis for the return, or earnings, that the utility is allowed to recover from its ratepayers.

Table 5 shows SWG's 2006 actual and 2007-2009 estimated weighted-average rate base figures for the three California jurisdictions.^{16, 17}

¹⁵ SWG Results of Operations, Volumes II-A, II-B, and II-C, Chapter 17.

¹⁶ *Ibid.*

¹⁷ These rate base figures include: (a) direct plant-in-service, depreciation reserve, customer advances for construction, deferred taxes, and working capital; and (b) system allocable plant-in-service, depreciation reserve, and deferred taxes.

Table 5
SWG Forecasts a Cumulative \$41 Million Increase in Rate Base
for the Three California Jurisdictions During 2007-2009 Compared to Base Year 2006
(in Thousands of Dollars)

Jurisdiction	Base Year 2006	Estimated 2007	Estimated 2008	Estimated TY2009
Southern California Division	\$123,266.3	\$135,199.1	\$146,742.5	\$155,248.2
Northern California Division	\$49,204.5	\$50,700.6	\$52,376.2	\$54,518.3
South Lake Tahoe District	\$8,406.7	\$9,597.0	\$11,370.8	\$12,418.0
Total	\$180,877.5	\$195,496.7	\$210,489.5	\$222,184.5

DRA will analyze the many components of rate base, including plant-in-service, working capital, deferred taxes, depreciation reserve, materials and supplies, customer advances, and the capitalization of overheads, vacation accrual, and A&G expenses. DRA will review SWG's estimating methodology in light of Commission-adopted methods to forecast the various elements of rate base.

K. Allocation Factors for System Allocable Costs

Table 8 shows SWG's 2009 forecast of System Allocable, or common, A&G expenses compared to 2006 actual. SWG uses the Modified Massachusetts Formula to allocate a portion of common costs to its FERC jurisdictions—Paiute Pipeline Company and Southwest Gas Transmission Company. The remaining common costs are then allocated to the various state rate jurisdictions (about 10% to California¹⁸, 33% to Nevada, and 57% Arizona) based on the 4-Factor methodology.

DRA will analyze the System Allocable costs, and will review the allocation factors and methodologies that SWG uses to allocate common costs to the three California jurisdictions.

¹⁸ The proposed 2009 allocation percentages to the Southern California Division, Northern California Division, and South Lake Tahoe District are 7.88%, 1.38%, and 0.86%, respectively. (The corresponding actual 2006 allocation percentages were 7.87%, 1.38%, and 0.86%.)

L. Post Test Year Ratemaking

SWG's proposed Post Test Year Ratemaking (PTYR) mechanism for 2010-2013 consists of two components:

- One which adjusts rates to recognize the effects due to: (1) inflation; (2) the PVC Pipe Replacement Program for the Southern and Northern California Divisions only; and (3) capital expenditures required to maintain service to existing customers.
- Another which adjust rates to account for customer growth¹⁹ during the post-test year period.

The first component is similar to what the Commission authorized in the utility's test year 2003 GRC.²⁰ However, SWG's current attrition mechanism does not allow for revenues from customers added during the post-test years, as the utility proposes as the second component of its PTYR mechanism.

The breakdown of SWG's proposed annual PTY increases for each of the three California jurisdictions is as follows:²¹

Table 6
For the Southern California Division, SWG is Requesting Operating Margin Increases Averaging \$3.9 Million (or 5.8%) per Year During the 2010-2013 Post Test Years (in Thousands of Dollars)

Component	2010	2011	2012	2013
Prior Year Operating Margin	\$62,269.6	\$66,177.4	\$70,059.7	\$73,956.4
Expense Inflation	\$467.1	\$478.4	\$490.1	\$502.1
PVC Pipe Replacement	\$576.5	\$576.5	\$576.5	\$576.5
Non-PVC Plant Additions	\$521.8	\$521.8	\$521.8	\$521.8
New Customer Margin	\$2,342.5	\$2,305.6	\$2,308.3	\$2,306.3
Annual Margin (current year)	\$66,177.4	\$70,059.7	\$73,956.4	\$77,863.0
\$ Increase in Margin	\$3,907.8	\$3,882.3	\$3,896.7	\$3,906.6
% Increase in Margin	6.3%	5.9%	5.6%	5.3%

Table 7

¹⁹ SWG is forecasting 16%, 9%, and 3% customer growth during 2009-2013 in the Southern California Division, Northern California Division, and South Lake Tahoe District, respectively.

²⁰ D.04-03-034, *mimeo*, at pages 62-63.

²¹ SWG Testimony, Tab A, Exhibit No. RAM-2, Sheets 1, 2 and 3.

**For the Northern California Division, SWG is Requesting Operating Margin Increases
Averaging \$729,000 (or 4.5%) per Year During the 2010-2013 Post Test Years
(in Thousands of Dollars)**

Component	2010	2011	2012	2013
Prior Year Operating Margin	\$15,060.6	\$15,785.7	\$16,513.8	\$17,244.1
Expense Inflation	\$59.8	\$61.2	\$62.6	\$64.0
PVC Pipe Replacement	\$176.7	\$176.7	\$176.7	\$176.7
Non-PVC Plant Additions	\$145.1	\$145.1	\$145.1	\$145.1
New Customer Margin	\$343.5	\$345.1	\$345.8	\$346.4
Annual Margin (current year)	\$15,785.7	\$16,513.8	\$17,244.1	\$17,976.3
\$ Increase in Margin	\$725.1	\$728.1	\$730.3	\$732.2
% Increase in Margin	4.8%	4.6%	4.4%	4.2%

**Table 8
For the South Lake Tahoe District, SWG is Requesting Operating Margin Increases
Averaging \$111,000 (or 1.7%) per Year During the 2010-2013 Post Test Years
(in Thousands of Dollars)**

Component	2010	2011	2012	2013
Prior Year Operating Margin	\$6,147.3	\$6,250.7	\$6,355.5	\$6,461.4
Expense Inflation	\$47.0	\$48.1	\$49.2	\$50.4
PVC Pipe Replacement	\$0	\$0	\$0	\$0
Non-PVC Plant Additions	\$7.0	\$7.0	\$7.0	\$7.0
New Customer Margin	\$49.3	\$49.7	\$49.7	\$49.7
Annual Margin (current year)	\$6,250.7	\$6,355.5	\$6,461.4	\$6,568.5
\$ Increase in Margin	\$103.4	\$104.8	\$105.9	\$107.1
% Increase in Margin	1.7%	1.7%	1.7%	1.7%

SWG is requesting substantial annual increases in the post test year period for its Southern California and Northern California Divisions. Much of the increase is related to plant additions. DRA will analyze SWG's request and consider different attrition methods, such as: (1) the traditional attrition mechanism; (2) using the Consumer Price Index (CPI) to escalate the margin amounts; or (3) other alternate methods.

M. Cost of Capital

In the Cost of Capital portion of its GRC filing, SWG requests the following target capital structure and rate of return:²²

²² SWG Testimony, Tab D, page 3.

Table 9
SWG Proposes an 8.45% Rate of Return for its Southern California Division

Component (a)	Weight (b)	Rate (c)	Weighted Cost (d=b*c)
Debt	50.00%	5.60% ²³	2.80%
Preferred	3.00%	8.20%	0.25%
Common Equity	47.00%	11.50%	5.41%
<i>Total</i>	100.00%		8.45%

Table 10
**SWG Proposes a 9.50% Rate of Return for its Northern California Division
and South Lake Tahoe District**

Component (a)	Weight (b)	Rate (c)	Weighted Cost (d=b*c)
Debt	50.00%	7.69%	3.85%
Preferred	3.00%	8.20%	0.25%
Common Equity	47.00%	11.50%	5.41%
<i>Total</i>	100.00%		9.50%

SWG is thus currently requesting a greatly increased 11.50% Return on Common Equity (ROE), resulting in a proposed rate of return (ROR) equal to 8.45% for the Southern California Division and 9.50% for the Northern California Division and South Lake Tahoe District. SWG's currently authorized ROE and ROR, established in D.04-03-034, are 10.90% and 9.17%, respectively.

As part of its Cost of Capital request, SWG also proposes continuation of the Automatic Trigger Mechanism (ATM). The ATM is in lieu of SWG participating in the annual generic cost of capital proceeding and provides a means of adjusting the rate of return as a result of changes in the 6-month average yield of AA utility bonds as reported by Moody's for the time period April 2008 through September 2008, subject to a deadband of 100 basis points (or 1.0%).²⁴

²³ SWG asserts that the Southern California Division has access to lower-cost bonds issued by the City of Big Bear, which are not available to the Northern California Division or the South Lake Tahoe District.

²⁴ SWG Application, Volume I, page 5; SWG Testimony, Tab D, page 7.

DRA will recommend an ROE at a level of return commensurate with market returns on investments having similar risks, and adequate to enable a utility to attract investors to finance the replacement and expansion of its facilities. DRA will develop its ROE recommendation by relying on results from financial models such as the Capital Asset Pricing Model (CAPM), Discounted Cash Flow (DCF) analysis, and Historical Risk Premium Model (HRP), in conjunction with Commission precedent and informed judgment.

DRA will also consider SWG's proposal to continue the ATM, which was approved in its last GRC.

N. Other Matters

As part of this rate case, SWG proposes consolidating the South Lake Tahoe tariff rate schedules and rules into a single California Gas Tariff.²⁵ SWG is currently keeping the rates and tariffs for South Lake Tahoe customers separate from the rest of SWG's Northern California rates and tariffs, per D.05-03-010.

SWG also proposes to combine its existing Core Fixed Cost Adjustment Mechanism (CFCAM) and its Non-Core Fixed Cost Adjustment Mechanism (NFCAM) into a single Fixed Cost Adjustment Mechanism (FCAM).²⁶ Like the CFCAM and NFCAM, the FCAM is a balancing account designed to protect ratepayers against over-collections and SWG from under-collections in revenues due to differences between forecasted sales and actual sales. DRA will likely take issue with SWG's proposal to recover past under-collections in the current CFCAM and NFCAM through the prospective FCAM.

²⁵ SWG Application, Volume I, page 6.

²⁶ SWG Application, Volume I, page 7.

Finally, SWG seeks recovery of costs recorded in its Catastrophic Event Memorandum Account (CEMA)²⁷ for the costs²⁸ of restoring utility service and repairing, replacing, and restoring damaged utility facilities (as well as complying with governmental agency orders) associated with the June 2007 wildfire in El Dorado County, in the South Lake Tahoe area, also referred to as the Angora Fire.

DRA will review and analyze these proposals, and may propose alternatives.

IV. CATEGORIZATION OF PROCEEDING

DRA agrees with SWG's categorization of this proceeding as ratesetting.

V. PROCEDURAL ISSUES

SWG proposes a procedural schedule requesting that: (1) DRA serve its testimony on April 28, 2008; (2) evidentiary hearings begin on August 11, 2008, and end on August 15, 2008; and (3) the Commission issue a final decision in December 2008.

DRA agrees that hearings will be needed to resolve the numerous issues raised by the application. Assuming SWG provides timely responses to data requests, DRA's current best estimate is that it will be prepared to mail testimony around mid-May 2008. DRA intends to propose a more comprehensive schedule at the prehearing conference based upon additional review of the application and SWG's responsiveness to discovery. DRA will likely: (1) oppose SWG's proposal of a specific date for closing discovery; and (2) propose that DRA's revenue allocation and rate design testimony be served about two weeks after its results of operations testimony is served (i.e., toward the end of May 2008).

VI. CONCLUSION

DRA respectfully recommends that the proceeding be categorized as ratesetting, that the matter be set for hearing, and that the scope of the proceeding include, but not be limited to, the issues identified in this Protest. DRA also recommends that a reasonable schedule be adopted at the prehearing conference.

²⁷ SWG Application, Volume I, pages 10-11.

²⁸ Approximately \$108,000 for incremental O&M expenses, and \$337,000 in capital expenditures for service line and meter set assembly replacements.

Respectfully submitted,

/s/ Edward Moldavsky

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January 25, 2008

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES**” in **A.07-12-022** by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding who provided electronic mail addresses.

[] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on January 25, 2008 at San Francisco, California.

/s/ Imelda C. Eusebio

Imelda C. Eusebio

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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